

Alamos Gold Inc./Argonaut Gold Inc.

PRECIOUS METALS

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All figures in US\$, unless otherwise noted.

Alamos Gold Inc.

Rating: Buy

unchanged

12-Month Target: C\$25.00 ↑

previously C\$22.00

Price (C\$)		\$19.72
Ticker		AGI-T
FYE		31-Dec
Potential ROR (incl. dividend)		27%
Avg 3-month daily vol. (000s)		587
Shares O/S	Basic (M)	396.8
	FD (M)*	401.3
Market Cap	Basic (C\$M)	7,824
	FD (C\$M)*	7,915
Annual Dividend (C\$/sh) / Yield	\$0.14	0.69%
Company's Reporting Currency		US\$
Cash (\$M)		238
Long-Term Debt (\$M)		1
Working Capital (\$M)		0
Enterprise Value (\$M)		5,525
Net Asset Value (\$M) **		6,576
Net Asset Value (C\$/sh) **		22.23

* FD - Fully diluted includes in-the-money options & warrants

** NAV calculated using US\$2,195/oz gold price, 5% DCF

Argonaut Gold Inc.

Rating: Tender

12-Month Target: N/A

Price (C\$)		\$0.40
Ticker		AR-T
FYE		31-Dec
Potential ROR (incl. dividend)		N/A
Avg 3-month daily vol. (000s)		3,031
Shares O/S	Basic (M)	836.3
	FD (M)*	836.3
Market Cap	Basic (C\$M)	330
	FD (C\$M)*	330
Annual Dividend (C\$/sh) / Yield	\$0.00	0.00%
Company's Reporting Currency		US\$
Cash (\$M)		166
Long-Term Debt (\$M)		137
Working Capital (\$M)		88
Enterprise Value (\$M)		302

* FD - Fully diluted includes in-the-money options & warrants

Argonaut Gold Acquired: Alamos Expands Its Gold Empire Event

Alamos Gold (AGI) and Argonaut Gold (AR) have entered into a definitive agreement whereby AGI will acquire all the outstanding shares of AR in a friendly share deal with a total transaction value of \$325M. We are moving our AR rating to Tender.

Highlights

- ▶ **The Bid I** The proposed transaction will see AGI acquire AR shares at a ratio of 0.0185 AGI shares per AR share and 1 share of SpinCo (Figure 6). Based on the 20-day VWAP of both companies, this values the AR bid at C\$0.40/sh, a 41% premium to AR shareholders. Existing shareholders of AGI and AR will own ~95% and ~5%, respectively, of the pro-forma company.
- ▶ **Significant Synergies Drive the Deal I** CEO of AGI, John McCluskey, remarked on the conference call that it was ultimately the \$515M in pre-tax synergies that drove this deal (Figure 1). Of that, AGI estimates \$375M of operating synergies with the use of the larger centralized mill and tailings facility at Magino. A capital savings of \$140M with mill and tailings expansion no longer needed at Island. In addition, C\$1B in tax pools at Magino that will delay paying cash taxes starting in 2025–2028 by utilizing the tax pools. Given the relatively long mine lives, the NPV of the operating synergies are probably about 2/3–3/4 of the total, thus \$250–\$280M. So, the operating synergies could represent 77–86% of the purchase price!
- ▶ **All About the Timing I** By waiting one could argue that Alamos is getting the Magino mine build for free. Here is a simple analysis:
 - At Dec. 31, 2021, AR had a basic market cap of \$591M and net cash of \$3M, for a total of \$588M. Add a 34% premium making it a total of \$789M.
 - As of the takeover, AR's basic market cap was \$241M, add a 34% premium making it \$323M, and it had \$305M in net debt (incl. deferred revenue) at Dec. 31 2023 for a total of \$627M.
 - The only difference is that Magino is now built (~\$1B in capital to build it); this does not include the synergies.

Conclusion

We have long believed that Island and Magino would make sense as a combined operation, given just how close the two assets are located (Figure 2) and the significant synergies (beyond those outlined above) from labour to procurement to power to exploration that the combination would/will provide. Both are assets that we see significant exploration upside and AGI has done an excellent job of unlocking that at Island and expect it to do the same at Magino. Despite AR management's significant work to ramp Magino up to a steady state, mining dilution and low-quality parts in the mill which led to unscheduled downtime continued to put pressure on the balance sheet and in turn the share price (see our [Feb. 26 research note](#)). Ultimately, we felt that an expansion of the Magino mill would be necessary to achieve economies of scale. AGI has both the technical expertise and the balance sheet to best optimize this asset. In addition, AGI has a long history of creating value through acquisition with \$2.7B of combined value created at Young-Davidson, Island and Lynn Lake (Figure 4). We currently have AGI trading at 0.9x NAV. Prior to the acquisition announcement, our valuation of AR had it trading at 0.23x NAV (C\$1.33 @ \$2,179/oz gold). Applying a 34% premium, it would be trading at 0.30x NAV; therefore, it is accretive to our AGI estimates on a NAV basis. We recommend investors of AR tender to the AGI bid as we believe it is the best option that will deliver significant financial and operational benefits over time. We are also increasing our target on AGI to C\$25.00 (from C\$22.00), based on a blend of our NAV and P/CF using our target gold price of \$2,400/oz (was \$2,100/oz) and assuming it maintains the same trading multiple. We continue to view it as a core holding and that it will maintain its premium multiple due to its strong balance

Alamos Gold Inc./Argonaut Gold Inc.

sheet, self-funded growth and two long-life operating assets in Canada. We maintain our Buy rating.

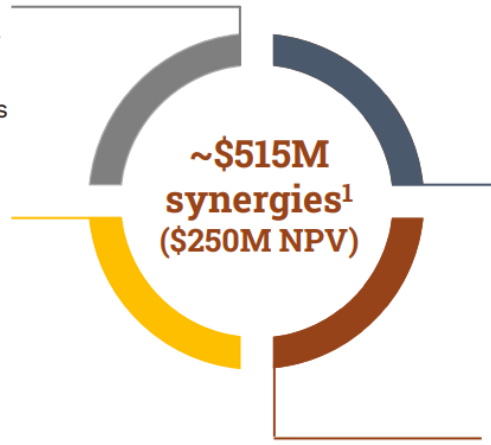
Figure 1: Summary of Synergies

Capital savings: ~\$140M

- through use of one central mill & tailings facility at Magino
- Island Gold mill & ongoing tailings expansions no longer required

Operating savings: ~\$375M

- **\$25M annual operating savings** over life of mine
- lower processing costs through central Magino mill
- lower consolidated mine-site G&A



Procurement savings

- increased purchasing power with three Canadian operations in proximity

Tax synergies

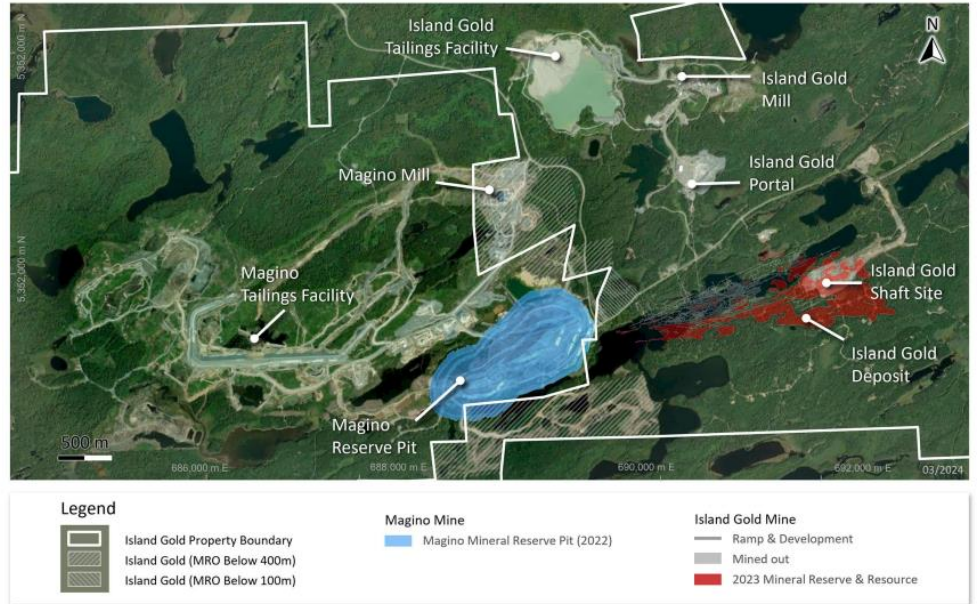
- Deferral of cash taxes in Canada with larger tax pools

1 Synergies pre-tax and undiscounted over life of mine; after-tax discounted value of synergies is \$250m

Source: Company filings

Figure 2: Map of the Complex

- Island Gold & Magino **deposits within ~300m**
- **Magino Mill incremental 2km** haul distance from Island Gold shaft
- **Larger mill & tailings facility** to accommodate **growing Island Gold deposit**

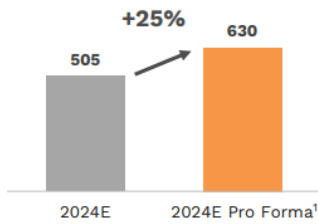


Source: Company filings

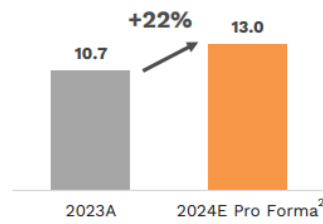
Figure 3: Accretive on a per share Basis for Production and Reserves

Adding value on aggregate & per share basis

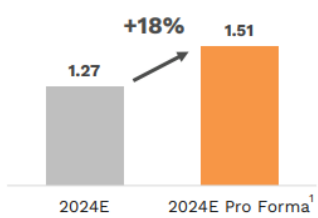
Gold Production (k oz Au)



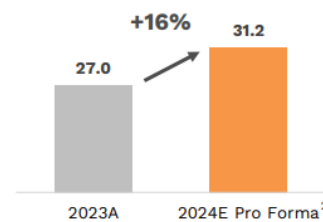
Mineral Reserves (M oz Au)



Gold Production per Share (oz x 1000)

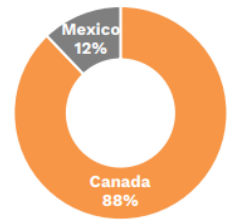


Gold Reserves per Share (oz x 1000)

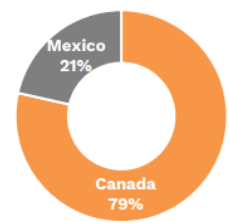


Leading Canadian Exposure

Asset NPV³ by Geography



2024-2026E Production⁴ by Geography



¹ 2024 gold production is based on the mid point of 2024 annual Alamos guidance and Argonaut guidance for Magino
² See Mineral Reserve and Resource estimates and associated footnotes in appendix
³ Based on consensus analyst net asset value (NAV) estimates for mining assets
⁴ Alamos production based on the mid point of 2024-2026 guidance; 2024 - 2026 Magino production based on consensus estimates

Source: Company filings

Figure 4: Long-Term Track Record of Creating Value

\$2.7 billion of combined value created at Young-Davidson, Island Gold & Lynn Lake since acquisition^{1,2}



¹ Based on consensus analyst net present value (NPV) estimates
² Cumulative free cash flow (FCF) generated since acquisition as of Q4 2023. Please refer to Cautionary Notes on non-GAAP Measures and Additional GAAP Measures
³ Acquisition cost based on the value of Richmond Mines on closing (\$627 million), net of \$58 million in cash on its balance sheet. Royalty & NPI repurchases totaled \$71 million

Source: Company filings

Figure 5: Pro-forma Capitalization

		 ALAMOS GOLD INC.		ALAMOS GOLD PRO FORMA¹
Trading	Exchanges	(exchange)	TSX/NYSE	TSX/NYSE
	Share Price	(C\$/sh)	\$18.45/US\$13.60	
Capitalization	Market Capitalization	(C\$ mm)	\$7,323	\$7,698
	Market Capitalization	(US\$ mm)	\$5,398	\$5,675
	Enterprise Value	(US\$ mm)	\$5,173	\$5,690
	Cash	(US\$ mm)	\$225	\$309
	Debt	(US\$ mm)	Nil	\$324
Shares outstanding	Shares outstanding ²	(mm)	396.9	417.3

Source: Company filings
¹ Alamos Pro Forma cash and debt values are based on Alamos cash and Argonaut cash and debt as of December 31, 2023.
² Alamos basic shares outstanding

Source: Company filings

Figure 6: SpinCo

Ownership	<ul style="list-style-type: none"> Argonaut shareholders to own 80.01% of SpinCo Alamos to own 19.99% following \$10 million equity financing upon SpinCo going public
Investment highlights	<ul style="list-style-type: none"> Two producing assets with over 100k oz of production expected in 2024¹ Attractive valuation with consensus analyst Net Asset Value of \$170 million² Florida Canyon: 2024 production guidance 63 to 70k oz with 9 to 10 year mine life¹ San Agustin (El Castillo Complex) is forecast to deliver 35 to 40k oz of gold production in 2024¹ Cerro de Gallo open pit, heap leach development project – with targeted annual production of 80k oz GEO's over a 15.5 year mine life³ La Colorada: potential to deliver meaningful value through restart of operation supported by pre-stripping
Balance Sheet	<ul style="list-style-type: none"> Strong balance sheet with \$10 million cash



¹ Based on the mid-point of 2024 guidance
² Based on consensus analyst estimates
³ January 31, 2020 Pre-Feasibility Study

Source: Company filings

DISCLAIMER SECTION

Company	Ticker	Disclosures
Alamos Gold Inc.	AGI-CA	3
Argonaut Gold Inc.	AR-CA	2,3

Note: Please refer to above table for applicable disclosure numbers.

- The analyst has an ownership position in the subject company.
- Paradigm Capital Inc. has assumed an underwriting liability for, and/or provided financial advice for consideration to the subject companies during the past 12 months.
- Paradigm Capital Inc. expects to receive or intends to seek compensation for investment banking services from the subject companies in the next 3 months.
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- The analyst has a family relationship with an Officer/Director of subject company.
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Stock Coverage History

Alamos Gold

Date	Target	Rating	Estimates
5/15/2023	\$22.00↑	Buy	
12/7/2005	\$7.00↑	Buy	

Argonaut Gold

Date	Target	Rating	Estimates
2/27/2023	\$0.90↓	Buy	
11/10/2020	\$6.50	Buy	Initiating Coverage

Research Rating System

Paradigm Capital Inc. uses the following rating recommendation guidelines in its research:

Recommendation	Number of Companies	Percentage Breakdown	
Buy	74	51%	Buy – Expected returns of 20% or more over 12 months.
Spec. Buy	41	28%	Speculative Buy - Expected returns of 20% or more over the next 12 months on high-risk development or pre-revenue companies, such as junior mining and other early stage companies.
Hold	4	3%	Hold - Expected returns of less than +/- 20% over the next 12 months. Includes companies Under Review.
Sell*	0	0%	Sell - Expected returns of -20% or more over the next 12 months.
Total	119		

*Includes companies with a "Tender" recommendation

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STOCK RATING SYSTEM

Buy: Expected returns of 20% or more over 12 months.

Speculative Buy: Expected returns of 20% or more over the next 12 months on high-risk development or pre-revenue companies, such as junior mining and other early-stage companies.

Hold: Expected returns of less than 20% over the next 12 months.

Sell: Expected returns of -20% or more over the next 12 months. .